

Levelling Up, Housing and Communities Committee

Oral evidence: Finances and sustainability of the social housing sector, HC 1268

Monday 19 June 2023

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Members present: Mr Clive Betts (Chair); Bob Blackman; Mrs Natalie Elphicke; Kate Hollern; Andrew Lewer; Mary Robinson; Mohammad Yasin.

Questions 60 - 133

Witnesses

I: Piers Williamson, Chief Executive, The Housing Finance Corporation; John Marr, Senior Policy Adviser, UK Finance; Jamie Kellett, Product Development Real Estate Prevent Marketing, abrdn.

II: Councillor Pippa Heylings, Deputy Chair, Environment, Economy, Housing and Transport Board, Local Government Association; Kathryn Jones, Director for Housing and Communities, Dudley Council; Michael Scorer, Strategic Director, Housing and Modernisation, Southwark Council; Deborah Heenan, Chief Executive, Populo; Conrad Hall, Corporate Director of Resources, Newham Council.

Examination of Witnesses

Witnesses: Piers Williamson, John Marr and Jamie Kellett.

Chair: Welcome, everyone, to this afternoon's session of the Levelling Up, Housing and Communities Select Committee. This afternoon, we have an evidence session on our inquiry into the finances and sustainability of the social housing sector. We have two panels this afternoon but, before I come over to our first panel, who are in the room with us now, I am going to ask members of the Committee to put on record any particular interests they may have that may be relevant to this inquiry. I am a vice-president of the Local Government Association.

Mohammad Yasin: I am a member of the Bedford Town Deal board and also employ a councillor in my office.

Kate Hollern: I also employ a councillor in my office.



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Bob Blackman: I am a vice-president of the Local Government Association and I employ councillors in my office.

Mrs Elphicke: I am a vice-president of the Local Government Association.

Andrew Lewer: As am I.

Q60 **Chair:** Thank you for that, everyone. We now come over to our panel. You are very welcome today. Thank you for coming. Could I just go down the table and ask you each to introduce yourself, and say who you are and the organisation you are here on behalf of?

John Marr: Good afternoon, everyone. I am John Marr from UK Finance. I work in the mortgages policy team there and lead on our work with our members who are commercial funders and investors to the social housing sector in England.

Piers Williamson: I am Piers Williamson. I have been the chief executive of the Housing Finance Corporation for nearly 21 years. I am also the chairman of Newbury Building Society in my spare time.

Jamie Kellett: Good afternoon. I am Jamie Kellett. I work in product development for the real estate team at abrdn. We are a global investment manager and also one of the UK's largest investment managers. We manage about £26 billion of commercial real estate across the UK. We have been looking at our strategic capabilities, as well as our clients' requirements and the merits of the social housing sector.

Q61 **Chair:** If we look initially at the funding of housing associations, they are providing a lot of housing and services for millions of people in this country today. Clearly, they collect rents, which are an important part of their income. They historically have borrowed money. There are things called financial instruments, which some of us may be better aware of than others. Certainly, people who are watching our deliberations today may not be quite aware of what they are, but they are an important part these days for many associations in providing the necessary resources to keep their services going, and particularly the cost of building and renovating social housing. How far can they go? How important are they in the modern world of funding housing associations?

Piers Williamson: Put simplistically, they are assets and liabilities of housing associations. Their assets are their homes. Their liabilities are predominantly what they borrow from the private sector. The other form of capital that they have historically is grant, but grant is not really a liability per se.

The issue that you have is that the financial market is littered with jargon. In terms of financial instruments, the beauty is in the eye of the beholder. It is just important that, fundamentally, if you have borrowed money, you have to service that money in terms of interest and principal repayments. How do you service that? You service that from your rent



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and from other forms of cash generation, which tends to be through sales and that side of things.

If, by “financial instrument”, you mean a liability, a liability has to be paid for, so it would be incorrect to think that it is another form of the magic money tree or something like that.

John Marr: From our perspective, there are two principal sources of private finance in the sector—financial instruments, if you like. There is the conventional, traditional bank lending and also funding from the capital markets, and then a smattering of other various types of funding.

I am sure that the Committee will be aware that the Regulator of Social Housing undertakes quarterly surveys of the financial health of housing associations. It has provided some very useful figures that give an indication of the scale of the various components of private finance in the sector at the moment.

Just pulling out some of those figures, we have total agreed private borrowing of around £123 billion in the sector at the end of March this year. Of that, around 49%, or £60 billion, is traditional bank lending, and 48% is from capital markets.

Very interestingly, looking back over the over the last year, we see that, for the first time in three years, bank lending in the year has exceeded capital markets funding in terms of new facilities agreed. Certainly in the last quarter, other finance sources, which could include various other instruments, amount to around £0.1 billion. Our colleague from abrdn will be in there as part of that mix and is, I am sure, able to illustrate some of the benefits of that type of funding.

Q62 **Chair:** Perhaps you could do that for us, Jamie. Also, why is the mix changing?

Jamie Kellett: From abrdn’s perspective and our capital markets, we are talking predominantly about private investors and institutions, so that is public and private pension funds, and insurance companies and the like. We have two routes to funding. One is similar to my colleagues here, with financing through the bond market and lending, but the element that we would be talking to, which may be considered new instruments, is looking at direct equity investment into the sector.

You might have seen that through perhaps the financing of for-profit RPs, which has been growing steadily over the last few years. Other parties—the larger housing associations and other investment managers in the UK—are looking at how they can establish relationships with the sector in order to provide direct equity.

If I were to talk about that in its simplest form, that is about owning the underlying assets or funding the development and operation of those underlying assets, and then working with the housing associations or the local authority to then provide the services of property management and



operating.

- Q63 **Chair:** You are not a shareholder in housing associations, so can you explain the difference, so that we understand?

Jamie Kellett: This would be a case of buying the homes and owning them directly through an investment vehicle or a fund. If you were a for-profit RP, you would own those assets. You would then have a management contract with the housing association to perform all of the day-to-day services that go with running those homes. You are keeping that focus of the expertise and the tenants front and centre, working with the core mission of the housing association, but giving them a new source of equity.

- Q64 **Chair:** Is this becoming a more common feature, or is it now reverting to more borrowing in relation to this sort of activity?

Jamie Kellett: This is predominantly where things could start to go to bring new sources of capital into the market. At the moment, the capital markets are, predominantly through debt, lending to the housing associations. That has been a mainstay of the sector for the recent past. It is looking at further sources of capital that are well aligned to the outcome of improving housing and creating sustainable living, and that is where you could start to look at the equity market.

Piers Williamson: We have been in business for 35 years, and 35 years ago, we were borrowing from the forerunners of abrdn. You have to segment the capital market. “Capital markets” is jargon, but, fundamentally, the historic investors in scale in the sector, throughout the last 35 years, from the capital markets have been annuity funds and insurance funds.

With the restructuring of the defined benefit pension regime, a lot of insurance companies are investing quite heavily in the sector. They make up, from John’s statistics, about 50% of the drawn funding in the sector. A small group of banks make up the other 50%. There is a subsector of housing associations that, for various detailed reasons, are running out of conventional capacity for that type of funding, and it is there that the opportunities probably lie for the likes of what Jamie is describing. It is still quite a small part of the market.

- Q65 **Chair:** Could you just explain again “running out of capacity” and what that means in practical terms?

Piers Williamson: Housing associations in big metropolises—mainly London housing associations—have been faced with unprecedented cashflow strains associated with fire remediation in the wake of the Grenfell disaster. The bill that is associated with that, because they have complex buildings of all types, is very significant.

At the same time, they tend to have been the big volume developers of social and affordable housing and affordable home ownership. Their



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business model has been the most pushed. Most of them are A-minus, long-term credits with significant debt loads. Hyde Housing Association is a really good example. It has teamed up with M&G to do an off-balance-sheet version of the sort of things that Jamie will be talking about.

Q66 Chair: That is a helpful explanation for us. Just as general principle, should the social housing sector simply be borrowing for capital investment and not to cover operating costs and ongoing maintenance?

Piers Williamson: Most would say that there is a golden rule to that effect. They should borrow to invest. You could look at specific circumstances and short-term ebbs and flows in terms of cash flow, where an association might have borrowed at the minute, for instance, to invest in new build and decided not to do that new build. It has a pot of money and has to pay for 500 fire doors, or whatever it happens to be. In the short term, they might use available borrowed money to invest in that, but, broadly, a golden rule should be that they borrow to invest, not to run their businesses day to day.

John Marr: Certainly from my perspective, I echo what Piers said there. Clearly, the big-ticket items that we are talking about are building safety, improving stock conditions and addressing all of the issues that have plagued the sector recently around damp and mould, and decarbonisation. As Piers says, we would certainly expect associations to be borrowing to fund development rather than for operational running costs. Part of it might depend on whether you could regard building safety improvements as operational costs.

Chair: We can explore that a bit further in a later question.

Jamie Kellett: I would just add borrowing for the right works in terms of the use of that capital, if you were using equity rather than debt, but you were doing it to improve your asset quality to be able to let the homes again, rather than general operational needs. There is a differential there.

Q67 Chair: Government grants are important. Is that instead of borrowing or does it enhance the ability to borrow?

Piers Williamson: Grant is technically interest-free, undated, subordinated debt, to throw lots of jargon at you. There is an interesting little history lesson. THFC was founded in 1987. Interest rates were 10% or 12% at that point. The maths of how you funded development of then social housing was 90% grant and 10% debt, because it took 90% free money, with the prevailing rent levels, to create a sustainable investment.

In the run-up to the credit crunch, interest rates were about 6.5% and grant rates about 50%, so 50% debt, 50% grant. We are down at probably 15% grant, 85% debt in recent history, where money was pretty well free. My cost of long-term debt got down to 1.5% for 30 years. It is now probably 5.5% a year 18 months on. It is the mixture, if you like. It is the cocktail of grant and debt.



If you are a housing association, your job as a sustainable entity is to be able to service that debt for, in my business's case, 30 years. There is a famous saying in housing that subsidised housing needs subsidy. If you are developing something that pays a very much sub-market rent, the subsidy has to come from somewhere. Grant is one form of subsidy. You can derive probably 10 different types of revenue or capital grant subsidies, but I am sure that you know more about that than me.

John Marr: Just to add to that perspective, since the time that housing associations have been able to borrow and to access private finance, the presence of grants has really meant that this has been a largely successful example of a public private partnership, so there is very much a role for continuing grants in the sector.

We have a situation at the moment where there is around £50 billion of embedded grant in the sector already, so that is a very substantial public investment. Going forward, as Piers talks of the reducing grant rates, with the additional demands that the sector is now encountering in terms of building safety and retrofit stock quality, and of being asked to build more homes, it could be argued that this is very much the time for Government to continue their commitment to the sector through certainty in terms of grant.

Jamie Kellett: I would concur that certainty through the continuing provision of grant, whether it is evolved for certain uses, much like the Building Safety Act and Fire Safety Bill, and generally having that consistent and stable environment, will attract more investment and enable people to make those longer-term decisions.

Q68 **Mrs Elphicke:** I wanted to explore what makes social housing attractive, and also to build on some of those areas that we were just exploring about the current and immediate investment or spending requirements in relation to net zero, fire safety and decent homes. Starting with the first of those, with more than £120 billion of facilities in the sector, what makes social housing so attractive to investors?

Piers Williamson: My version of the same question is, "What is the difference between a housing association and a volume house-builder?" I always describe to investors a four-legged stool, which is what makes it an investable proposition.

Grant is the first point. We have talked about what grant is, and there is about £50 billion of it ahead of any private finance in terms of taking a first loss. There is the presence of the Regulator of Social Housing, so a statutory regulator with a well-proven toolkit of regulatory interventions. The lending model is a straightforward mortgage model. For those of us with mortgages, you understand what mortgage finance is. It is not securitisation. I will not reel off loads of City mumbo jumbo. It is just understandable, straightforward, old-fashioned mortgage finance.

The last piece is the certainty of the cash flow. Pre universal credit, we always used to say that the rent role went straight from a local authority



to a housing association. With universal credit and the empowerment of individual tenants, and ensuring that they understood what it costs to house them, it has been interesting that, remarkably, we have not seen significant voids to date—touch wood—but we are still in a position where, on average, 57% of rents are paid by DWP at the end of the day, so there is a significant embedded revenue subsidy that flows through the tenant.

Those are the distinguishing factors of why it is an investable proposition.

John Marr: I would add that the sector has generally very strong credit ratings, as assessed by the main credit ratings agencies, and that is a major tick in terms of investability, certainly for those larger associations that are rated.

Other than that, I would say that Piers has identified and described the main features that attract investments—the long-term cash flows coming from the rents, which are index-linked, the Government commitments on grant, the track record of the sector of no loss through default, which is a very significant plus point for investors, and the strong regulatory oversight by the regulator, which is focused, from our perspective, on robust economic regulation and looking at the financial strength and strength of governance of those organisations.

Jamie Kellett: For a real estate investor, it is all about income. Stable income with relative certainty usually comes when you are looking at real estate through a demand and supply imbalance, which, of course, the UK housing market has in depth. It is really about focusing that capital and working with the right partners. The steadiness of state and the opportunity to have relatively stable income are the real incentives for real estate investors.

The structures are evolving. As Piers mentioned earlier, the defined benefit model of life companies is changing, but the requirements of the capital are not. They still want to see consistent and steady income. If that can be inflation-linked, all the better, but that is the clear motivation for supporting the sector.

We have also seen a responsibility to be accountable for your buildings and to have more of a social and environmental perspective. Again, there is a clear need, as identified by the nature of this inquiry, for that capital to be put to good use. If you can enhance building quality and make sure that your residents are comfortable and have a good standard of living, and equally have access to that stable income, that makes it a very attractive proposition.

Q69 **Mrs Elphicke:** One area that we were discussing in last week's evidence session was the importance or otherwise of corporate strength in this particular sector—the organisational basis of lending and risk management. Now, we have three slightly different models and at least three different approaches in terms of risk to one of the issues that you



have mentioned, which is the inflation increase and, linked to that, rents.

I just wondered if you could help the Committee with how you perceive the different opportunities, challenges or strengths of your relative models from owning the asset. It would be interesting to hear the extent to which that is reliant on the cash flow, the more traditional corporate model and lending straight to the business, and the aggregator model from THFC's perspective. Jamie, why is yours the best and what are your risks?

Jamie Kellett: Ours is not the best. It is another source of capital that is attracted to come into the market and work with everybody else to try to increase funding and capacity. It comes from the very real need that the way we live and operate is changing, and the stock that underpins that is very old or does not exist. It definitely should not be seen as a replacement for existing funding models, and a lot of the strength from existing funding models is exactly the type of items that we would subject to due diligence when we are looking at, "Is this is a safe investment? Is this relatively secure?"

We manage our clients' money. We look at their requirements and whether they have their own portfolios or other investments. We look at their real estate requirements and we look to meet those. Sometimes, clients will come forward to us and say, "We would like this return, but we would like it to be focused in this area. We think it would work for us," so we agree horizons and look at ways of accessing that. We look at the way that we can execute it with the right partners.

In doing that, we want all the right checks and balances. We want people who are focused on delivering the services that they specialise in. We want them to be well-run businesses. We like the use of the Housing Ombudsman and the social housing regulator to keep tabs on that. We would also run our own committees. We have an investment committee that looks at the merits and strengths of counterparties, the asset quality and whether there is a transition plan for them. We are additionally overseen by other bodies through our own regulation to say, "Are you executing an investment strategy that the investor signed up to?"

All those checks and balances very neatly align to the types of behaviour and capital that the sector would like to see. There are some nuances to it in terms of liquidity of the different funding structures, and perhaps a need to trade assets between owners, but that is going to be seven-year or 10-year horizons and it would not be an entirety of a portfolio. It is very much about how you have supplementary capital coming in alongside the existing funding models.

Q70 Mrs Elphicke: Can I just dig down a little into how you assess and forecast what you think is going to happen in terms of rent forecasting over the period? Where does the balance of risk sit in relation to the Government's overarching rule in rent capping? How do you approach that in terms of assessing and managing that risk from your perspective?



Jamie Kellett: The starting point is always to have a sustainable level of rent increase, because you would never want to price out your occupiers, and even more so with the social housing sector. The Government's involvement there works alongside that. We will be profiling a certain amount of income based on current policy and those forecasts. We would then be looking at the resilience of the businesses that are operating them and checking that, under those circumstances, they look like they can deliver the services to enable that housing provision to continue. We would always take a relatively conservative base case of, "Let's just have slow and steady, with graduate uplift".

Piers Williamson: There are good examples of where institutional finance has created a more structured approach. Institutional finance does not like taking reputational risk. It likes having a housing association or an equivalent, or a commercial housing management company, collecting rents and managing properties. When housing associations are in the middle, institutional investors often ask for rent guarantees, effectively, so they ask the housing association to take the rent collection risk. The risk does not go away. It just gets packaged up in a different way.

I would say this, because I lend to housing associations, but the grass is always greener on the other side. Having been lending for 35 years in a varying policy environment, housing associations are big enough and bad enough that they have been able to flex and morph with the changes in policy, but the investment has stayed broadly consistent with a consistent view of, "This is the package that we have".

Where you create a more structured approach—something like supported housing REITs are a good example of where you can have opcos and propcos and all sorts of financial mumbo jumbo—you financially package up who does what in the the equation. The risk is still the same underneath it all. It is the allocation of risk. In the supported housing REITs, it is the poor little housing association that has ended up with a 20-plus-year index-linked lease that it has signed up to, and a commissioning environment where goodness knows what happens on the other side of it.

Jamie Kellett: That is what has happened to date, and we have seen the evidence of that, but I would say that sophistication in the market and the treatment of risk has been championed. Those rent guarantees from housing associations, particularly the smaller ones, are not a fair way to run the model. You are holding them hostage to your cash flow requirement, and that sentiment is changing from an institutional perspective. You have seen the likes of Big Society Capital having the equity impact project. You have had similar projects with the BPF, really looking at having that fair sharing of risk.

There is no doubt that it is about supporting a strong operational business, but the terms of the leases and the covenants or guarantees attached to that have come down to reflect that we need a better level of



service for everyone's comfort. A lot of that is linked to reputational risk. You cannot be a bad actor in this. In modern real estate, you need to be much more accountable for your buildings. It is not just a contract for someone else to deal with the problems. That is a transition that is happening at the moment, but it is, of course, part of everyone's agenda to look at how they utilise that and begin to trust it.

Piers Williamson: The answer is not one or the other in the market that we are in. The answer is probably all the different variants that we can think of in terms of the capacity of the market, so the answer is much more nuanced.

Q71 **Mrs Elphicke:** Yes, absolutely, but, as we are exploring, there are slightly different implications between different models, which you have expressed well, Piers, in terms of your assessment of the allocation of risk. It is also interesting to hear from Jamie how the market has become more sophisticated and involved in that space, and perhaps reactive to it.

John Marr: The key point that I would like to highlight is that longer-term certainty around rent policy and rent setting would help to address some of the risks that colleagues on the panel here have been identifying. In terms of risk perceptions and how funders are informed by these, I would just like to highlight the role of the regulator again in terms of the judgments that the regulator provides around financial strength and viability. The judgments there are very valuable to funders going forward. Coming back to the point about rents, certainty over the long term would help to de-risk some of those issues in the sector.

Q72 **Mrs Elphicke:** It is certainty rather than a particular settlement that you are looking for, in terms of knowing what is happening over a period.

John Marr: That is correct, yes.

Q73 **Mrs Elphicke:** Coming back to that question on net zero, fire safety and decent homes standards, do you have concerns about the reallocation that we explored with the Chair at the beginning of the session about the shift in funding and how that is having to be allocated in this period? How do you see that impacting on appetite for investment? Would you see any way in which you would be monitoring that in a different way going forward from how it has to be dealt with in this more urgent response?

John Marr: It would really be for the boards of housing association businesses themselves to determine how they wish to address those priorities and in which order. That said, one would reasonably expect that something like building safety would probably come at the top of the list.

Decarbonisation is very much a high-priority issue, but that is being addressed over a much longer timeframe out to 2050, although there is a 2030 commitment by most of the sector to achieve EPC C for its properties. That is slightly further down the line, which may mean that associations can address other priorities first.



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Then, of course, there is stock condition, which, again, is a very high priority with all of the coverage about damp and mould issues and the tragic events that have happened as a result of that.

Then we have ongoing development, which is clearly very much a priority of Government and of the sector to be able to deliver the new homes that people need across the country.

It is very much a balancing act, but it would ultimately be for the businesses themselves to determine how to balance those priorities.

Piers Williamson: Three of those four pots involve spending money and not getting any money back. Development is the only one that gives some form of investment return. It is a matter of scale and degree. They are different formally depending on where you are in the country. There is an answer inside London, put simply, and there is an answer outside London, because of the cost of remediation of properties inside London, principally.

We sit and monitor free cash flow generation for housing associations, and we are concerned about what they spend their cash on. There is less cash coming in than they could possibly spend on all of those four subjects, so something has to give. The likely give, we would predict, given what John says about being able to spread the cost of EPC C or zero carbon over quite a long period, is probably the development expenditure, which is what we are seeing in the short term, because the priorities are keeping your tenants safe and in damp-free, decent homes.

Jamie Kellett: No one is disputing the difficult position that housing associations and local authorities are in. Where do they start? They have many responsibilities placed upon them in terms of being facilitators of the housing development, trying to keep a good proportion of that back for social housing, and, equally, trying to manage existing and older stock.

There needs to be an acknowledgement of that and looking at those support packages that can enable them to, dependent on their location, their balance sheet and their exposure, work through a plan of where to focus first and try to think about the knock-on implications of that, particularly around their credit rating. They are balancing a cost of debt and, if that goes up, because they are trying to do the right thing, there is a bigger problem for them.

With the various capital sources, policymakers and players, a balance of working through those considerations is probably what is needed. Whether that is moving out targets for EPC or increasing certain amounts of grant funding to enable that activity, that is the kind of collaborative approach that is needed.

Q74 **Chair:** We talked about certainty on rents as opposed to indexation. If rents were fixed at 2%, and costs could go up by 6%, that is not certainty, is it?



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Piers Williamson: It is not a good formula.

Q75 **Chair:** The formula has to bear some relationship to costs.

Piers Williamson: Yes. Prior to the current inflationary bulge, housing associations would typically have had their costs rising at CPI flat, and their revenue rising at CPI plus 1%. What we see today are rents rising at 7% and, depending on what you are doing, costs rising above that. We call it negative jaws. Their operating margins are broadly just coming down, which means that, in cash flow terms, there is just less money left over to fund all the activities that we have been talking about.

Chair: That is a helpful, simple explanation.

Q76 **Mrs Elphicke:** If there was a 10-year rent settlement, would it not be the case that housing association finances would still be subject to the sorts of inflationary pressures that we have seen impact in terms of built costs, construction costs and all the other costs?

Piers Williamson: It depends on what the 10-year rent settlement is. Most housing associations, I suspect, want to see some form of inflation linkage to the settlement. There is no doubt that they are living off narrower margins, and it really depends on what happens with staff cost inflation and with build inflation and so on. The give in the middle is the efficiency of the organisation. That is the only thing that you can manage to, but at a time when, for instance, regeneration is an expensive affair in terms of people. In my experience, you need lots of people going around estates and helping other people, which costs money.

Q77 **Mrs Elphicke:** In terms of the core funding model, just to make this very clear in our understanding, housing associations also have reserves, and margins of upwards of 25% or sometimes 30% on social housing lettings. Is a strength of the model the fact that it provides for a certain amount market volatility?

Piers Williamson: You are describing the market in terms of accounting concepts. I think about the market in cash concepts.

Q78 **Mrs Elphicke:** Yes, absolutely, but you mentioned margins of the letting sector. You will appreciate the point that I am just trying to draw out here, which is that every business goes through ebbs and flows with the market. No market volatilities are outside every business's control, so rent certainty in itself does not answer the volatility within operating in a market or a diverse market environment, does it?

Piers Williamson: Rent certainty for a 10-year period is helpful. There was supposed to be rent certainty from 2015, and then we had four 1% absolute rent cuts, which had a more adverse financial impact in its own way than the current rent cap. Where that leaves housing associations though—I am a big believer in “We are where we are”—is that they are working off lower margins. If you read the quarterly report from the regulator, interest cover is at the lowest point for eight years. Where we



start getting interest cover below one times, they are eating into fat in the way that you allude to.

Q79 **Kate Hollern:** If there was a real risk of hosting associations failing, what impact would that have on attracting investment?

Jamie Kellett: Without a doubt, it causes nervousness, but, generally speaking, these things are relatively well signposted and you would be looking to work with them. There is a misconception that a housing association cannot fail, and it is forced upon another housing association to pick up the pieces and then work through the whole of the operational efficiencies and rationalisation, so it is unhelpful to see housing associations fail.

If you had already partnered with them and were keeping your engagement clear with them, and you start to see the signposts and you work hard with them, that helps absorb some of that, and it falls more into market risk, depending on the reason for why they have failed. If it is negligence of operations, there is as much of a burden on yourself as the investment manager for partnering with that organisation as well. Of course, it is unhelpful, but it is about trying to find a way out of that situation.

Piers Williamson: For 35 years, the main part of this market has been a default-free market, and it is a market that has borrowed £120 billion, as you have already heard. It would be wrong to say that housing associations do not go wrong. They do go wrong. The good thing is that, four times out of five, they go wrong slowly. That is how I always describe it. The one that you have to look out for is the fifth.

I have been involved—and, in fact, Mrs Elphicke was involved with me—in sorting out an organisation called Ujima about 10 or 12 years ago. I have been involved since with Cosmopolitan, and we have just had an organisation called Swan come very close to the line. In the case of Swan, its public debt was downgraded to junk status, in jargon, and it was rescued at one minute to midnight by a very large housing association called Sanctuary.

So far, there are 35 years of a clean slate, and there is an expectation amongst institutional investors that that will always be the case. It may not be and, if you had the regulator here, they would tell you about how they prepare for really nasty events, and plan Bs and Cs and so on. The consequence of a failure would be the significant repricing of that £120 billion of debt. If it is already out there, “Oh dear. How sad. Never mind”. If you were the housing association, bank debt would certainly increase significantly in its cost, but the cost of incremental investment in the sector would jump, if it was available at all. It is a “kill the goose that lays the golden egg” type of story.

John Marr: It is a very good question. As Piers was mentioning, certainly in terms of Ujima a number of years ago, and then, most recently, in



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terms of the Swan/Sanctuary merger, we can see that business failures in the sector are relatively rare. They happen slowly, meaning that lenders and investors have time to forebear. If a failure were to be on the cards, we see, essentially, that the rescue model has worked well, with mergers being possible in time to protect the sectors, and a track record of no loss through default.

Underlying all of that, I would just come back to the importance of the role of the regulator through the regulatory framework and standards that are in place. These really do help to make sure, as far as possible, that businesses do not get quite so close to the wire that they need to be rescued in that way.

Q80 Kate Hollern: Following on from that, does the regulator have the right powers and understanding to protect the sector from failure or the impact of financial failure?

John Marr: Broadly and currently, they do within within the regulator's available resources, but what we are seeing is a sector that is becoming more diverse and more complex in terms of the financial instruments, as the Committee was asking about earlier, that are out there and that the sector is using. That underlines a need for the regulator's skills and resources to be able to keep pace and probably to be one step ahead of where the sector is going. Skills and resources to do that are not likely to be cheap, so that would underline, again, the need for the regulator to be able to raise fees to support its regulatory activities to make sure that it is keeping pace with risks and innovations in the sector.

Q81 Kate Hollern: Piers, do you have any comments on the powers of the regulator?

Piers Williamson: I describe it as the fireman with different implements to put out a fire. The measures that the regulator has are mainly embedded in statute. I describe that as the fire extinguishers or the sticks for beating the fire or whatever. There are about 15 different measures, from a polite cough through to a statutory inquiry at the other end, and all paths in between.

My experience of the regulator is that it is highly effective at knowing which toolkit to use. They have a saying of, "Never waste a good crisis". In terms of the lessons learned from the Housing Minister in one of these, they say, "We would like a really new, super-duper fire extinguisher that looks like this, please". That certainly happened in the wake of Cosmopolitan. Because the regulator has to do this stuff, it is quite adept at choosing the tools.

The thing that it always has to worry about is classification risk. In my time in the sector, it has come on to the Government's balance sheet. The ONS reclassified it. It has to be very careful that the nature of the interventions that it has are not viewed as control of the sector. If you look at the way it practically acts in any of these workout situations, it is often just behind the scenes. Everyone says, "It is the regulator doing



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that". Legally, it is probably the housing association doing it, not with a pistol at its back but that end of the spectrum.

Kate Hollern: A little nudge.

Piers Williamson: Yes, a little nudge.

Jamie Kellett: In the development of its ability to engage with new partners and to look through the business models that the housing associations are using, the skills, the time and the ability to do that are very important factors. My colleagues here have outlined the powers that they have, but, with any overarching regulator, it is the capacity to take the time and to understand the different models.

Q82 **Kate Hollern:** Do you think that the regulator has the capacity and resources?

Jamie Kellett: It will need to develop them further. You do not want scaremongering either. A lot of behaviour at the housing associations comes back to their inspections and the reporting that they are going to get from the regulator, so they cannot feel that their activity may jeopardise that. If they have a concern that a certain type of new activity is not understood by the regulator, they will not undertake it, and so you might have closed doors to looking at new sources of capital or better ways of working.

Piers Williamson: If you look at the parallel of financial regulation, the PRA is constantly chasing after the complexity of the next failure, and is always having to tool itself up as to, "What could be the next thing that goes wrong?" The past is not a guide to the future, unfortunately. Housing associations are probably a slightly meeker and milder version of that. Cosmopolitan failed because of student housing associated with it. Swan failed because of complicated development schemes.

The skills to understand those are very niche and very different. The regulator knows this, and is constantly looking for the next mousetrap, but, for better or for worse, you probably get paid more in an investment bank than you do in a regulator, so you probably get paid more in the development department of a housing association than in the regulator, dare I say. That is probably a bit un-PC.

Q83 **Kate Hollern:** How often do investors exercise their contractual rights to protect the viability of housing providers that they invest in, in particular in relation to mergers?

Piers Williamson: Most often, investors do not have any say in relation to the merger of a housing association. Drawing a distinction between capital markets investors and bankers, bankers often have, in their contracts, an ability to have their say in a merger, and usually for such permission not to be unreasonably withheld. More often than not, investors do not have a say. I could go into the details of what happened in Swan, but that would be really nerdy.



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Jamie Kellett: To Clive's point earlier, investors are not shareholders, are they, in the organisation? They have no stake or control in that organisation. They can speak and engage, and suggest that certain things happen, but they have no voting rights. In terms of their involvement in mergers or potential mergers, they do not have voting rights to make that decision.

John Marr: This is quite commercially sensitive territory and, as the trade body, we would not necessarily have a view to express on those things. Suffice to say that it is a very complex and commercially sensitive area.

I would say, though, that, in terms of recent developments, we have had the relatively new housing administration regime, which was introduced after the Cosmopolitan failure and supports dealing with a very large, complex organisation that might need to be broken up in some way, so that investors can recoup their investment. That sits alongside the powers of the regulator as well, so it is a belt-and-braces arrangement.

Piers Williamson: Going back to Mrs Elphicke's point about structured credit versus housing associations, housing associations have been very good generically at negotiating a lot of freedom to organise their businesses as they see fit. This is one manifestation of that fact. With structured credits, if you want to sneeze, you have to get permission. They are two very distinct regimes.

Q84 **Chair:** Jamie, you were talking earlier about the instruments, where you have an equity stake in properties, but then there is a contract with a housing association to manage them. Would you not at least have some rights in that arrangement if there was going to be a change in the housing association by merging with another and, therefore, the organisation managing the properties that you own changed?

Jamie Kellett: You would have some attempts to look through at the service provision, and the stability and the maintenance of those contracts, and you would look to be comforted that they were making the right arrangements and merging appropriately. Essentially, if they did change and you were not so happy with it, you would be looking at a change of operator in that regard. Typically, the route is that, if you do not like it, you move on and change it. It is not that black and white in practice, and nor would it be in this sector, but you would not be able to veto the change of manager or the merging of that organisation.

Q85 **Chair:** But you might let them know that it might have consequences further down.

Jamie Kellett: Yes, absolutely. You might say that you want certain assurances in the continuity of service and the provision to your tenants.

Q86 **Mohammad Yasin:** It is very clear that social housing providers must have the ability and skills to deal with the complex financial systems that they are working with. In your experience, do the housing associations



that you work with have the necessary governance processes and in-house skills to manage the size and complexity of their financial operations?

John Marr: This is another good question. The sector is very diverse. We have housing associations that are exceptionally large and complex businesses akin to FTSE 250 companies. On the other hand, we have some very small associations that are very much community-based. Across that spectrum, there is a need for boards in those businesses to be able to identify, understand and manage the risks that they might be taking on.

A very large organisation that is developing—for example, G15—will perhaps have a much broader need for skills than a smaller community-based organisation that is just managing its existing stock and does not necessarily have a development pipeline or any ambitions to have one.

Essentially, it is about having the right skills, the right experience and the right mix of those to suit the business. Again, I would come back to the oversight that the regulator provides in terms of governance and its judgments on governance, which help to inform and underpin the confidence of funders and investors in the sector.

Piers Williamson: The regulatory framework has created a much more detailed, in-depth view of what it considers to be good governance. There are these exercises called deep-dives, where, if your risk management is not viewed as being up to snuff, the regulator will come in and will take a deep-dive into that particular aspect.

The regulator goes into a great deal of depth about what it considers to be good governance. In my 20 years in the sector, the standard of governance generically is much better than it was. There are times when it is definitely not perfect, but part of the toolkit helps intervene to correct that.

Jamie Kellett: I do not have a great deal to add to that. The governance and value ratings that are applied by the regulators are always the first port of call for a housing association in terms of decision making, and they track back to that quite well. I would also echo the scale point. The larger organisations with the most activity are better placed to look at that than the smaller ones.

Q87 Mohammad Yasin: Housing associations have to balance investing in more social housing and uplifting standards in existing stock. Can you explain the financial risks associated with large or small housing associations operating in the sector?

John Marr: Again, that is a very good question. The scale of risk that a business is taking on financially will vary in terms of the size of that organisation, if it is developing or not. Again, I would echo the point that I made earlier that it is really the view of the regulator that underpins



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investor confidence in terms of the risks that businesses are taking on there.

Piers Williamson: There are families of risk. To try to give you a really quick answer, development risk is a whole family of risks in its own right. They are quite specialist types of risk. Financial risks are a whole family of risks. Health and safety risks are increasing. Post Grenfell, we discovered that health and safety was right up there. Going back to the old-fashioned side, we have discovered housing management skills in what I call the ITV saga, with the exposé of housing associations struggling to keep up basic standards for some of their tenants. All of those are families of risks where you would expect them, in terms of good governance, to have subject matter experts or be covered systematically by housing association boards.

Q88 **Mohammad Yasin:** Would introducing shareholders improve housing governance?

John Marr: Again, another good question. As they are today, housing associations are mutual organisations that are delivering social purpose in terms of providing homes for people who need them. I would not say that there is any suggestion that that current model does not expose those businesses to the scrutiny that is needed. They are very much answerable to their investors. They are scrutinised through the activities of the regulator. Piers mentioned the deep-dives and the in-depth assessments.

I would also highlight that, increasingly, the requirements of investors to see strong ESG credentials from the businesses that they invest in also provide a really good, effective level of scrutiny. Although there may not be shareholders involved, the association is quite significantly scrutinised for good. In fact, in some of the other models where there could be shareholders—we touched on least best providers earlier—the regulator has certainly identified a number of instances where scrutiny in these businesses has not necessarily been quite as good as it should have been.

Piers Williamson: The only thing that I would add is the roles of rating agencies. Most institutional investors are now insisting upon their investments being verifiable and certifiable, in some cases, for ESG—eco, social and governance—criteria in housing associations. In some ways, that is a substitute for some of the scrutiny that shareholders might have, but those that have had public debt have had rating agencies scrutinising their finances, essentially, so there are other forms of scrutiny that are highly relevant.

Q89 **Mary Robinson:** Apologies for missing the first part of the meeting. We have heard about deep-dives. What would trigger a deep-dive?

Piers Williamson: There are a number of aspects. Quite often, it can be self-referral, where a housing association says, “We have discovered that



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our electrical safety testing is not quite what we thought it was," or, "We have discovered that some of our rents were not formula rents." That will cause a deep-dive in its own right.

Q90 **Mary Robinson:** Is this self-referral?

Piers Williamson: Yes. Housing associations have to provide various financial returns to the regulator. If a housing association was viewed as having weak financial metrics in a particular sphere, or it might have a lot of interest rate exposure or a presenting metric, the regulator might come in and say, "We are going to deep-dive you". The regulator risk-ranks the bodies that it regulates. From memory, they would look to routinely deep-dive on a subject of their choice every three to four years in the bigger housing associations.

Q91 **Bob Blackman:** Looking at potentially attracting more finance, what changes would you like to see to encourage private finance to invest in social housing, assuming that you think that it is a good idea to do so?

Piers Williamson: Subsidised housing needs subsidies, so assuming that the development model involves development, there needs to be certainty on rents. Housing associations routinely provide 30-year business plans to the regulator, and we get copies of all of those. Certainty on rents is an inflation-linked formula. First and foremost, it is the certainty over that. For something that was supposed to be certain for 10 years, we have had two quite big rocks in the road along the way. If you extrapolate a plan out 30 years, that form of certainty of cash flow can support all sorts of activity, and so that, its own right, might encourage a more leveraged sector.

I recognise that there are all sorts of competing pressures on Government for what it spends its money on, and I know that the sector routinely asks for capital grant. You can create proxies for that. There are plenty of things that local authorities do around the provision of subsidised plots of land. The Labour party is starting to talk about zoning and all sorts of interesting questions around the hope value of land. If you go back to the Barker report, there were lots of points that were made by Kate, both on that and on tax and the tax treatment of housing associations.

Looking creatively at subsidy, because subsidised housing needs subsidy, those are the two things that I would point to.

Jamie Kellett: The funding models and the operation of social housing and all of the policies that support that, and then the other elements, are so incredibly complex that, if you are looking for new or additional sources of private investment, you want to put the marker down that you are welcome to see it come in and to give everyone that ambition. Then they will start to move hurdles and solve the problems, and to do it within the boundaries than you set, rather than just trying to work around the edges.



If you talk to housing associations and local authorities, depending on which parts of the business or the authority that you are talking to, the mere fact that you are private capital will get you a very different reaction and a fear over your intentions. Looking at the structure of the private capital and how it can work with it, and looking at developing brownfield sites and the regeneration of local authority land, there really needs to be consideration about how that can be put into the formula to be part of that subsidy and to allow social housing to be brought forward, but with a number of different equity partners.

John Marr: I would certainly echo those points about certainty on rents and certainty on grant, which could, as Piers suggested, take various forms in terms of the type and shape of subsidy. I would also add maintaining a strong, well-resourced regulator.

As a further point, there are clearly changes afoot to section 106 and the move to infrastructure levy. We do not know how that is going to come out at the other end of the machine, as it were, but section 106 has enabled a huge amount of social and affordable housing provision. There are quite legitimate concerns being expressed in the sector that a move to an infrastructure levy that does not ringfence the levy for development of new affordable housing could also present a further challenge that the sector would have to deal with.

If there was a favourable outcome on the infrastructure levy that enabled affordable and social housing to continue to be provided in a ringfenced way, that would also be a positive in terms of investability for the sector going forward.

Piers Williamson: Outside London, there are organisations with large-scale voluntary transfers, which I know you are familiar with. We describe a subtype of those as mature large-scale voluntary transfers. Those are transfers that have got across their original promises to tenants and have, in a lot of cases, quite significant development capacity. Many of them use section 106 as a primary way to grow their affordable stock. People talk about 50% of total output.

Everyone admits that it is not a perfect machine, but it is one that works and combines the available capacity, and the capacity to draw down more private finance, with an ability to create more affordable homes in a relatively simple formula.

Q92 **Bob Blackman:** One of the concerns that may be expressed is that, by bringing in private investment, this might not be in the interests of tenants or the long-term best interests of social housing providers. Are there any investments that we should, rather than refuse, not encourage?

Piers Williamson: The worst model out there has been the supported housing REIT.

Bob Blackman: Do not worry. We know about those.



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Piers Williamson: Why has that market existed? If I were to critique housing associations, they are financially prudent. They probably take a more conservative view of the commissioning arrangements around those sorts of services, and we have seen a lot of them pull away from that market. It does not mean that the need is not there. More certainty in commissioning in some of these niche markets is really quite an important point for a local authority. Sorry, it is for my colleagues behind to say, when it is their turn.

Q93 **Bob Blackman:** It is not necessarily housing associations involved in this; this is rogue landlords being involved, and there is no commissioning involved from local authorities either, but that is another subject. John, do you have any views about investment that we should discourage?

John Marr: I would not necessarily say that any investment should be discouraged, but the answer to the question is really about making sure that the mix of funding and investment in the sector is appropriate, and that the organisations understand the risks involved.

Q94 **Bob Blackman:** Should tenants be fearful of investment coming in and thinking, "Oh my goodness me; rents are going to go up and we are going to be treated unfairly"?

John Marr: Private investment has been in the sector for many years and has achieved great public benefits. In that respect, it has been a good thing, and there is no reason why it should not continue to be. I said earlier that the sector is a good example of a public-private approach to the provision of social housing. If the funding choices of housing associations businesses are appropriate and understood, the risks are identified, managed and mitigated, and the regulator is also on the case, then private investment does a good job.

Jamie Kellett: I am glad that colleagues echoed that. Realistically, you want to have the right ambitions and to understand your sources of capital and the structures that they are using to enter the market. Predominantly speaking, it is about the intentionality of that capital. If capital is coming in for higher returns, this is not the place to be entering. It is slow, it is considered, it is stable and it is sustainable. With investors with that outlook, there is a meeting of minds and good, strong alignment.

When you are looking further down the line at the checks and balances or the ways that funding can access it, looking at the case of lots of isolated for-profits, you should always be looking at that scale and operation efficiency, with a consideration that the investment funds have those same parameters. They have pressures on fees. They need to see that capital return. They want efficient businesses. We should be looking for that throughout the structure, from the investor all the way down to the resident. Under those models, it looks after the residents.



Chair: Thank you to all the witnesses. That has been a really helpful session for the Committee to understand some of the complexities involved and how they have been approached. Thank you very much indeed for that very informative and detailed information given to the Committee.

Examination of Witnesses

Witnesses: Councillor Pippa Heylings, Kathryn Jones, Michael Scorer, Deborah Heenan and Conrad Hall.

Q95 **Chair:** Thank you all for coming this afternoon to talk about the challenges local authorities face with regard to their housing responsibilities. We have four witnesses with us today in the room and one witness online. I will go online, first of all, to Kathryn Jones. Could you all introduce yourselves, and say who you are and the organisation you represent today?

Kathryn Jones: My name is Kathryn Jones. I am director of housing and communities at Dudley Council in the West Midlands. We are landlord to just over 21,000 homes. Thank you.

Michael Scorer: Hello, I am Michael Scorer. I am the strategic director for housing at the London Borough of Southwark, where we have around about 55,000 council homes, which is split between leaseholders and tenants.

Deborah Heenan: I am Deborah Heenan. I am chief exec of Populo Living, which is Newham's solely owned housing company.

Conrad Hall: I am Conrad Hall. I am the director of resources and section 105 officer at the London Borough of Newham.

Councillor Heylings: Thank you very much. I am Pippa Heylings. I am deputy chair at the LGA for the Environment, Economy, Housing and Transport Board, which is a very proud manager and owner of 1.6 million homes.

Chair: You are Councillor Pippa Heylings.

Councillor Heylings: Yes. I am also a councillor at South Cambridgeshire District Council, where I am the chair of the Climate and Environment Advisory Committee.

Q96 **Chair:** Just to say, we have two representatives from Newham—one from the council and one from the housing company. If there is a question, could one of you decide who is going to answer it? We have quite a lot of questions we want to get through and a large panel today. That would be helpful.

I have a nice, simple starter. In general, what are local authorities' main



financial challenges with regard to social housing? We do not have a day or two to answer the question. We will try to confine it to a few minutes, but I know it is a big ask. I am going to ask Councillor Heylings, who is representing the wider local authority movement, to answer first, if she would.

Councillor Heylings: First of all, the Local Government Association would like to express the ambition that local authorities have to be able to deliver 100,000 social homes a year. The LGA has done research around this to show how that is affordable and could deliver for the Treasury as well.

Despite owning 1.6 million homes and delivering more each year, we are seeing a huge imbalance. Perhaps we should have the greater negotiating power that we have heard housing associations have had in terms of the self-financing deal that local associations have.

What do we have at the moment? In terms of expenditures, we have just heard about the Fire Safety Bill. That is about £7 billion total for all of the social housing stock. Of course, that should really just be written off as a capital grant given to local authorities. They should not be servicing that. They should be allowed to do that.

In terms of the decarbonisation grant, which is about making homes warm and saving energy bills, by 2030 we are looking at £23 billion over that period to be able to get all of the housing stock to EPC band C. On top of that, we also have the decent homes standard in terms of housing and the ability to replace, rather than regenerate, some of the housing stock where it is not fit for purpose for either the decarbonisation grant or the decent homes standard.

At the same time, in terms of income, through the self-financing plan there has been an assumption that through this debt repayment the incomes that would come in would enable local authorities both to service those homes to those standards and to deliver new homes with the borrowing on top. Through the rent cap that has just come in, we are now seeing that local authorities will have a debt of £664 million over two years.

Most of them have a broken system, where they cannot afford to balance maintaining the stock they have to the standard people should and do deserve with being able to deliver the new homes.

Q97 **Chair:** Why are the challenges for local authorities different to other social housing providers? Are they the same, essentially?

Councillor Heylings: No, very different things have been negotiated. In terms of local authorities, we might talk about, for example, the right to buy scheme we have just heard about from housing associations. It is voluntary for housing associations to sell that stock, but it is mandatory for council homes.



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Council homes have not been able to retain 100% of the receipt of the sales coming into local authorities. Recently, the Government have made that up to 100% for two years. That would need to be permanent, of course.

On top of that, housing associations, as well as being able to bring in 100% of the sale of any homes, can also decide how they spend that money and whether they do a one-to-one replacement of it. Local authorities are only allowed to spend up to 40% of that sale; they have to borrow the rest. A very different arrangement has been decided between housing associations and local authorities on that particular issue.

Q98 **Chair:** Michael Scorer, does Southwark have the same problems or do you have different or discrete problems?

Michael Scorer: We have the same problems and some that are peculiar to Southwark. The big challenge with our existing stock would be safety. We have probably got an unexpected £30 million bill for each of the next three years. In terms of the standards, I would expect us to be spending about £100 million a year, if we were to meet all the standards. Over the next decade, the cost of the climate emergency is around £800 million.

Our peculiarity is that we have 17,000 homes attached to district heating systems. A lot of those were built in the 1960s and 1970s. They need considerable investment. They have not been invested in in a profound way for many decades. That is about £400 million.

We have a commitment that is unfunded to build 11,000 council homes. We have about 3,200 that we can fund at the moment, which is less than we would like, but I am sure we will come back to that. We also have four what we call high investment needs estates, which includes the Aylesbury Estate, which is one of the biggest estates in the country. That alone needs about £3.4 billion to be invested in it. We have some huge challenges and bills, but those are the big things in summary.

Q99 **Chair:** Do you have similar problems in Newham?

Conrad Hall: We have similar problems. I will not recite different numbers for a different authority. In thinking about trying to deal with that, there are some key points. Certainty of long-term rent policy makes a huge difference to this, as do grant rates in terms of helping the development, which is essential to start to offset some of the extraordinary pressures we are seeing in temporary accommodation. I will not rehearse the same numbers that have already been given, but we face exactly the same sort of pressures.

Q100 **Chair:** Kathryn Jones, I do not want to leave you and Dudley out. Presumably, you do not have anything like the problems they have in London.



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Kathryn Jones: We all have our unique issues, do we not? I do not have a lot to add. I would echo that, aside from all the costs we have spoken about in terms of fire and building safety and maintaining our homes, decent homes 2 is coming as well.

Whatever we are investing into our current homes in terms of property maintenance, repairs, and so on, they will nevertheless age, as we all do. Homes that are currently perhaps hitting EPC band C, etc., are not going to do so as we go through this cycle. There is also this constant reviewing, is there not? Although we think we may have X percentage of homes that hit SAP rating C at the moment, in five years' time, when we are looking at it, that will have changed again. It is that evolving cycle of demands on our finances that is the other context here.

Chair: The detail of the challenges may be slightly different, but there is some similarity across the piece.

Kathryn Jones: Indeed, yes.

Q101 **Kate Hollern:** This is a question to you all. We quite often hear the Government say that there are a number of measures in place to support local authorities' finances with regards to social housing. How far do these measures that have been implemented go to address the financial challenges? We have heard that the challenges are huge. How far do you feel the Government's measures are really supporting local authorities?

Michael Scorer: It was mentioned by the previous people who were being asked questions that, like housing associations, we have the 30-year business plan. That is not really adequately funded over that period. We have some very short-term challenges. I mentioned the bill for safety of £30 million. I have mentioned all the other areas that we need to fund.

The biggest problem is that while there are grants, we have right to buy receipts and we can use section 106 payments, we are not allowed to combine those. With some of the money that we potentially could use, we find that the strings attached to the use of it mean we cannot use it.

As my colleague has just mentioned, the 100% right to buy retention is not really 100%. Although we could use all of it, we would still have to find the additional money—I think it is half of it—to make up for the money that we cannot use through right to buy. That takes us back to borrowing, but we are already borrowing as much as we can prudently do to fund the homes we have already built.

We are struggling for Government help. That sensibly gets us to look at other potential sources of funding. You specifically asked about Government help. I would say one other thing about Government help. There is some money available for things like decarbonisation as well as new homes and other things we can do in housing, but a lot of this funding has quite a number of strings attached and is quite detailed and



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quite specific. We end up potentially chasing lots of pots of money. Some co-ordination would be better.

We also run a multi-tenure portfolio, by which I mean almost every single block of flats—85% of the stock in Southwark is in blocks of flats—has secure tenants and leaseholders in it, and a lot of the grants are available for private housing, i.e. leaseholders, or public housing, i.e. tenants. That really has been a problem. I know that is getting into detail, but some of the complexity and the strings attached are having unintended consequences in terms of the purpose of the original Government money that is available.

Deborah Heenan: In a previous life, I led Total Place, and out of that was the total assets and capital programme. Again, I would echo the same point: a single capital pot with a strategic drive for more affordable homes is going to get better results for everyone.

Conrad Hall: Just to add, you have heard all about the cost pressures. In terms of Government help, I cannot emphasise enough some of the points that have been made either about the short-term nature of grant regimes, which make long-term planning hard regardless of whether the funds in those are sufficient or not.

For example, we have recently had the one-year reduction to the Public Works Loan Board rate. That helps, of course, but that is really an extremely short-term measure for what is supposed to be a 30-year plan. It is that longer-term certainty over funding, interest rates and particularly rent policy that is really key. We are not seeing enough of that at the moment.

Councillor Heylings: The results speak for themselves. Even though some of the changes that have been made and the support from Government has been welcomed, I would just point again to those differences. For example, the difference in the small change to right to buy receipts is only over two years. It has not been guaranteed. There is no long-term permanent guarantee of that market and that ability; there is no certainty.

That will bring in around £224 million, but the deficit for local authorities because of the social rent cap that has just come in is £664 million over two years. It is the lack of balance.

We come back to the point that this is major. The self-financing settlement with local authorities happened in 2012. The assumptions in that settlement have been superseded by the costs, by the inflation and by the high-quality standards for housing that are needed for safety. Those assumptions have not met the caps on incomes that are coming in.

That self-financing settlement is to be reviewed in 2025. It is urgent that we start looking at it now so we can have long-term certainty. That is where it happens. We need the long-term certainty of one pot to say how



much is coming in, how much is coming out and how we can manage this debt.

Kathryn Jones: Again, I am pretty much going to echo a lot of what has been said. Clearly, we have had the rent cap for this year, which is entirely understandable. A lot of us sat back and thought, "Okay, what do we need to do just to maintain the status quo?" Maintaining the status quo is not an option when we are faced with the challenges we have around property condition, property safety and so on.

Yes, the measures have gone some way to support and address the challenges, but the need for additional funding that sits alongside those puts us in a very difficult position. For example, there is matched funding for the social housing decarbonisation fund, but the affordable homes programme grant is only available to cover additional units rather than to support the regeneration of existing stock, and there is also the acquisition cap and the restriction on the percentage of right to buy receipts that we can use to invest in new homes.

All of that means there is a challenge to us in terms of the finance. Whilst those measures go some way to addressing the issues, we cannot mix and match the different streams of funding. We cannot use different grants and bring them in together. We cannot use, for example, the affordable housing programme to complement the remainder of homes where we can put 40% through right to buy receipts. It still leaves that challenge there.

Q102 **Kate Hollern:** My next question was going to be whether we need a more strategic approach, but you have all made it quite clear that we do and that the short-term measures are adding to the problem. If you could name one measure that was adversely affecting the finances, what would it be?

Michael Scorer: We have some pretty big calculations of what we are going to have to spend, for example, on retrofit and new build going towards the climate emergency. By the way, I want to say that it is not that I not think it is important, but the scale of investment in Southwark—we think it will be £2.6 billion—is just eye-watering. We do not know how we are going to find that amount of money.

When I think about the priorities and the order of priorities of spending money, No. 1 is whether the buildings we have—the homes we are responsible for—which have tenants and indeed leaseholders in them, are safe. That is number one. In my list of priorities—albeit it is absolutely critical, which sounds a bit perverse—spending on the climate emergency probably comes third because there are other things that are clearly and obviously more immediately important.

Conrad Hall: I have said my piece on this question. We need long-term certainty over rents and what the clamp from the regimes will be. There will always be cost pressures. We have heard just how substantial they



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are, but giving us certainty over funding for the longer term means we can at least tackle those challenges and balance those pressures better than we are at the moment.

Q103 Kate Hollern: Are the measures for support just creating problems for the future because they are short term?

Conrad Hall: There is certainly an element of that, is there not? We are having to take some decisions now. As Michael has just explained, just like national politics, local politics is in the business of prioritisation.

He is having to take decisions to prioritise some aspects of spending on safety, very importantly, management and so on. Over the long term, Government policy, absolutely rightly, on decarbonisation, for example, is not getting the attention we would want it to. We do not know what the long-term funding arrangement is so we can only deal with the short term. That is the problem.

Councillor Heylings: It is heartbreaking that in 2012 the right to buy scheme, as I understand it, was a one-for-one replacement scheme. If you sold, you then had the capacity to be able to build a replacement. At the moment, that is just not happening. The LGA has done research that has shown that, by 2030, if we continue the way we are, there will be nearly 22,000 homes lost. They will not be replaced. They will be out of the stock.

This is a good scheme, but it is poorly now, with some perverse rules for local authorities in it. It means we are losing stock, and that is something we can change. We can do better.

Q104 Kate Hollern: Based on that, surely even if you got 100% of the sale from right to buy, it still would not be enough to replace—

Councillor Heylings: You asked for one measure. I can reel off a few more.

Kathryn Jones: Just following on from that conversation around right to buy, in terms of measures that are adversely affecting local authorities, we could do a lot more around right to buy and be more creative if we did not have the restrictions I have referenced before around the use of receipts and any acquisition caps.

We know we have a challenging environment in the construction industry as well. It would be really helpful to have flexibilities around the use of right to buy receipts, if we were able to keep 100% of them, to purchase homes. We could bring in new homes more quickly at a time when we do not necessarily have either the budget or the resources to build and we know the challenges in the construction market.

Q105 Chair: To pick up on regeneration funding, I do not know how far it applies in London, but certainly Homes England are restricted in how far they can help. If you demolish 400 not very great existing properties



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because they are inadequate for current purposes and replace them with 350, they cannot fund you because no additional units are going in. Is that a problem?

Councillor Heylings: Yes, it is. The LGA would definitely make a recommendation on this. At the moment, the affordable homes programme is a barrier to local authorities. There is more regulation, supervision and oversight of the ways in which we are investing money. It is divided into regeneration and replacement.

Any property that is now seen as not fit for purpose—it is going to be too expensive either to decarbonise or to reach the decent homes standard—should be able to be demolished and replaced. At the moment, the barrier that is in place is the fact that the affordable homes programme money that is available to local authorities cannot be used. It can only be used for additional units.

At the moment, we are not being wise and efficient in the use of the affordable homes programme. We need to be able to say, "This needs to be demolished. It needs to be built to the right standard". That will be cheaper than trying to constantly keep it up to standard. There is a barrier in there that could be removed.

Q106 **Chair:** Kathryn Jones, do you have similar problems in Dudley?

Kathryn Jones: Yes, absolutely. What has just been said by Pippa is right. When we are talking about regeneration in its widest sense, in my view the affordable homes programme could do so much more if it did not have that restriction on only covering the additional units delivered.

On the one hand, we are talking about creating new housing; on the other hand, we are talking about the challenge of balancing that with regenerating our existing stock and making sure it is safe, comfortable and energy-efficient for our customers. The two should not be mutually exclusive, in my opinion. If we are going to invest that money, let us invest it in the whole of that community and have a balance between building new homes and bringing the ones that sit alongside those homes up to the same standard through regeneration.

Otherwise, we are almost creating a two-tier community. If we had more flexibility with grants like that, we could have a much bigger impact both in terms of the financial return we get back from the investment and the impact on the customers who will ultimately live there.

Q107 **Chair:** Is this a London problem as well?

Michael Scorer: It has become one. I will give you an example. At the moment, we are rebuilding, over about seven years, a large estate just off the Old Kent Road. We do have some money going towards that rebuilding, to the regeneration of that estate. It has come to an end for future phases.



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Thinking about that estate as an example, over a number of phases across seven years, we are demolishing and rebuilding it. The community, which voted overwhelmingly to have their homes demolished, is able to see that everybody who lived there will get a new home. They were previously in a building that was of a very poor standard and would never have been great, even with many tens of millions of pounds spent on it.

It provides not just new amenity space but new space, because of a better design and layout, for public space and new buildings, amongst which will be some buildings that will cross-subsidise the development, which will be for private rent and sale. We will end up with a much better designed estate, and every single tenant will be able to stay on the estate in a much better house or flat. Those flats will perform to higher standards of thermal efficiency, for example, which means they are cheaper to run for tenants and a whole lot better for the whole community, with overall better environmental standards across the estate.

If we could not do that, we would end up with a situation where we would be doing very piecemeal infill. We would be leaving buildings slightly better but not really to the standard we want.

Deborah Heenan: I am going to tell you probably the first positive story. One of the reasons for Populo Living to exist is to step into the shoes of a developer in Newham. We have an estate called the Carpenters. It has just over 700 homes at the moment. It is very run-down.

Like the rest of the panel, we had three options before us. First, we could have replaced all the units. We did not have that money. Secondly, we could have entered a joint venture with a private sector partner. That partner exploits the land value, takes some of the risk and gives a return. The price for that is at least a 20% margin and sometimes that has gone up to a 40% margin. I have been on the other side of that as a strategy director in the private sector.

We took the third option, where Populo Living, in conjunction with the council, is stepping into the role of the council's developer. We will redevelop it. Over the life of the scheme, it will be about £1 billion. Everyone who is on the estate will get a brand-new home. They will only have to move once. They voted overwhelmingly for that option. What we are doing is taking that margin of profit and wrapping it back into replacing the homes whilst building some private for rent to do the rest of the cross-subsidy.

Q108 **Chair:** Do you get any Government subsidy for that?

Deborah Heenan: Yes. In essence, if there were no Government subsidy available, we could still cross-subsidise and build some affordable in the



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way that Bellway or Barratt would do through a section 106 plus some more. The more subsidy that is available, the deeper the discount.

Q109 **Chair:** You can get subsidy, unlike councils outside London that cannot for the same sorts of projects.

Deborah Heenan: Yes, we can get affordable homes grants, but they are net additions to the stock.

Conrad Hall: I have one point to emphasise on grant. We have spoken a lot about the complexities of the system and the way it does not work. I would just refer back to and emphasise the evidence Mr Williamson gave in the earlier session about the quantum of that grant regime. Although it is important to make these things work as efficiently as possible, he made some really important points about how the proportion of grant available has changed over time and how that is making it harder and harder to deliver new homes.

Q110 **Mary Robinson:** Just on the model you have described in terms of the right to buy, people are going to have a brand new home that is much better and probably more desirable. Will more people want to buy their own homes? Have you factored that into the model?

Deborah Heenan: I now have a group of companies and I have a subsidiary that is an RSL. I have Populo Living, which is the group, and Populo Homes is the RSL. That has the right to acquire, which, as you know, is different to the right to buy. At the moment in London the homes are so prohibitively expensive to buy, quite frankly, that under the right to acquire we are not projecting that we will lose many in the next 10 to 20 years. It is over the life of the scheme.

Q111 **Bob Blackman:** Can I just check something with you? After this development takes place, who is the landlord for those tenants?

Deborah Heenan: At the moment, because we are a part of the Newham family, the way we see it is—

Q112 **Bob Blackman:** Are you a separate company to the council?

Deborah Heenan: We are a separate company.

Q113 **Bob Blackman:** You are wholly owned.

Deborah Heenan: We are wholly owned. The gentleman to my left is my sole shareholder.

Q114 **Bob Blackman:** Do the tenants get the choice to be a council tenant? That is always the issue around this type of development.

Deborah Heenan: It has been really interesting. We did a huge amount of door-knocking and talking to residents about what they wanted. They quite quickly got to the bottom of this. They did not want a JV partner; they wanted us. They were not that bothered whether the label says "London Borough of Newham" or "Populo Living". They care that



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something is going to happen and they are going to get a new home and a revitalised estate.

Q115 **Bob Blackman:** Yes, but, if they were council tenants, they would have the full right to buy.

Deborah Heenan: Interestingly, we have heard less of that and a lot more—

Bob Blackman: Just so we are clear, that is the case and the tenants all understood that.

Deborah Heenan: Yes, because we have had some questions. Interestingly, it has been down the priority list compared to, "Please make something happen".

Q116 **Bob Blackman:** I just want to move on to historic debt, which is one of the key issues about the stock transfer that has taken place. I will start with you, Kathryn, because it might apply to you up in Dudley. What would be the impact of cancelling some or all of the historic debt that took place on the social housing stock transfer?

Kathryn Jones: Yes, it is an interesting question, is it not? It is one that is on the periphery of my area of expertise. In terms of cancelling some or all of that debt, if I go back to the original assumptions that were made—they have been referenced before—it was anticipated that the rent income local authorities would receive would be sufficient to fund all the works we are now talking about. Clearly, with everything that has evolved since then, that is not the case.

Whilst the cancelling of some of that debt may be beneficial, for me it would be dependent on whether and how the budgets that are currently servicing that debt could be rediverted and what the benefit of that would be. As I said, that is something on the periphery of my area of expertise.

With all of these things, whether it be the debt, the grants and all of those kinds of things, it is how we marry them all up. There is not one single solution that is going to help. It is that package of everything and how the different parts complement each other. If every bit of it is in isolation and cannot be used together or mutually, we are still going to be facing a similar issue, though perhaps from a different angle. There are benefits to it, but it depends on how it balances out with everything else and whether it can be used collectively, from my perspective.

Q117 **Bob Blackman:** Pippa, there is a claim, of course, that when this took place more money was loaded on to this than the debt. What is the view from your chair?

Councillor Heylings: As we have just heard, the assumption was that the money coming from the rent would be able to help finance that debt, help maintain the stock and help build the stock as well. There was a balance there. Inflation, the increasing requirements in terms of



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standards for homes—we have heard about fire and safety, decarbonisation, keeping homes warm and the decent homes standard—and a 10% increase in construction costs just this year have all meant that this has ratcheted up and the equation does not work anymore.

I have a specific example from South Cambridgeshire District Council around this one. South Cambridgeshire District Council borrowed £205 million from the Public Works Loan Board, but the sums are not working out as was expected in terms of the assumptions for that. It is now assumed that the council will not be able to repay that debt and so it will have to be refinanced. If the debt was cancelled, it would save the Housing Revenue Account £7.2 million a year in interest payments. That is interest payments. That is what is being paid for out of the HRA. That is the equivalent of 50 new homes a year.

Could it be done? As we have just heard, how could that be utilised? If it were cancelled, that would be great. The new self-financing scheme for local authorities could be renegotiated by 2025. That could reset the assumptions around—

Q118 Bob Blackman: One of the arguments that would be put against that is, if you were to cancel the debt, local authorities would start borrowing more money to build, and therefore the debt would build up again and be a challenge. How would you answer that particular challenge?

Councillor Heylings: As everyone is saying, first, that could be a short-term thing right now, but what we need is a long-term self-financing scheme that is with local authorities and an agreement of how you will have a long-term rent plan. It is the balance between the income from rent and the outgoing expenditures that makes this sustainable.

Q119 Bob Blackman: Conrad, you are the director of finance in Brent. When I was leader of Brent, we demolished Chalkhill Estate and Stonebridge Estate. Even after we had developed new estates, we were still paying the debt on the building of the estate when it was originally built in the 1960s. What is your take on this particular issue?

Conrad Hall: I will not go into historic issues in Brent. It was before my time, even if we are still paying.

Bob Blackman: It is.

Conrad Hall: My answer to this is really simple. When it comes down to it, money is money. To give a simple example, if you cancel £1 million of debt that is at 5%, let us pretend for ease of example, that is £50,000 a year. It does not really matter, from my point of view, whether it is a reduction in debt or an increase in grant in order to fund activities.

The concern is that, if there were some debt write-off, we would then take on new debt in order to fund activities. That is true. We would, assuming that Government policy was still to build more houses, which of course it is.



There is a really significant point of distinction from the local authority side, though. If you cancel debt as opposed to giving grant, once it is cancelled, it is cancelled for good. It comes back to my point about long-term certainty. We then know that we have a different financial base from which to work and we can make plans on that accordingly.

If instead you give me, in my little example, £50,000 a year in grant, and I know I have that next year but I have no idea about the year after that, I cannot plan accordingly. As a means of providing support, regardless of quantum, that would give the sector considerably more certainty.

Q120 Bob Blackman: Deborah, do you have anything to add on that particular issue? We are talking about the position in-year.

Deborah Heenan: The reason we were set up as a start-up was due to the necessity to find a way to build more homes. The cross-subsidy model gave predictability over the 45 or 50-year length of the scheme.

Michael Scorer: When Southwark, like other authorities, became self-financing in 2012, it inherited about £600 million of debt. Subsequently, we had the four-year rent reduction and this current year's rent cap. Over 30 years, those equate to roughly £1 billion that we thought we would have to pay for things we have to pay for. There would definitely be a benefit to Southwark, and undoubtedly to others, if we were to cancel the debt that was in place in 2012.

The point has already been made that this would of course give us the opportunity to borrow more. In the first half of this Committee meeting, there was talk of a golden rule. We operate the same golden rule. If you are going to borrow, borrowing should be to invest so the investment gives a return. We are only looking to borrow to fund new homes. At the moment we are supplementing that borrowing with private investment or private sales.

It comes back to having some certainty over a long period. Can we make plans? That helps us to replan. The last thing I will say is that we have been hit this year by things that nobody could have planned for. We have experienced nearly 30% construction cost inflation. We know about the war in Ukraine, Brexit and Covid. All of those things were not really in our plans when we were thinking about those.

Bob Blackman: If you had been able to plan for all those things—

Michael Scorer: I would have bought a lottery ticket. They were not in our plans and we have been hit by those. They have had a profound effect on the money we have. The short answer is that it would be helpful to us, and I am sure to others, because of that ability to plan over the longer term.

Q121 Andrew Lewer: This is to Deborah and Conrad, first of all. I wonder whether you could give me an overview of your view of the value of establishing council-owned housing companies. We have touched on it a



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little bit, but it is a bit more of an opportunity to be more specific about their value to you.

Deborah Heenan: There have been a lot of start-ups and some of those, like all start-ups, have been shaky. A lot of companies are now stabilising. Right now, at a national level, they are hugely important. We are a build-to-rent business that cross-subsidises.

You have heard from other witnesses that the volume builders are slowing down production because they are a develop-and-go business. They do not have the buyers. If they do not have the buyers, they cannot build the homes. We look like we are at risk of re-running some of 2008, where the production of new homes ground to a halt. We are doing some of the countercyclical measures to that.

Right across the country, there are two ways you can get more production. First, there is build to rent. There is no shortage of renters either in the affordable or the private side. Historically, the develop-and-go developers have not pivoted. They might be nudged into a pivot this time to target those renters.

Secondly, we work closely with the councils. We are looking at countercyclical measures and thinking about housing capacity rather than just building new homes. To give you an example of that, we have overcrowding and undercrowding in the council. We are building later living because that is freeing up family accommodation while providing the right accommodation for people who are over 55. It is really high quality and it is attractive to encourage them to downsize.

There is a very pivotal moment now. How do we think about getting more production into the system?

Conrad Hall: Can I add perhaps a slightly different take to that? Rightly, there is a lot of concern about council-run companies. I am sure we can quote examples of ones that have failed.

It is really important to focus on the substance rather than the form. Fundamentally, these companies are undertaking what is by any definition a risky activity, house-building. Everyone knows that is complex, difficult, dangerous and so on. The risk is not really so much the fact that it is being done through a company as much as that the activity is being undertaken. If you do it badly, you will suffer that consequences either way.

When it is a company, it is really important that you have some key elements of governance in place to oversee that. For example, the company having an independent board is an important control. We ensure that not only is the annual business plan of the company approved in public by cabinet each year but also that the individual investment decisions on taking forward the next part of the plan or whatever are also subject to that same cabinet approval process. The



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audit and scrutiny functions in the council oversee Populo Living in just the same way as they would another council department.

In other words, if you are going into the model of holding a company, you have to hold true to the principle of transparency being a really important means of ensuring good governance and good decision-making. Sometimes it is almost thought that putting something in a company takes it outside of that regime. We operate exactly the opposite way and we ensure that, in that sense, it is treated just like a council department because of the importance of that principle of public scrutiny and transparency.

Q122 **Andrew Lewer:** You were saying that there were examples. Croydon and Woking come to mind. Why would similar people to yourself called to be witnesses before the Committee from Croydon and Woking not have said, "Everything is fine. We have scrutiny and robust procedures in place"?

Conrad Hall: I cannot speak for Croydon or Woking or what evidence you may have heard or are going to hear in respect of those. Respectfully, if the question is along the lines of, "Well, you would say that, wouldn't you?" the point is that the Populo Living model has demonstrably succeeded. We have 875 homes.

Deborah Heenan: Yes, there are 875 either built or under construction.

Conrad Hall: Yes, there is a substantial pipeline of construction activity that is taking place, but there are homes that have been built, rented and are earning an income.

Again, the concern seems to be, "Could this be going wrong?" Not that anyone would want it to go wrong or that it is going wrong, but, in the event of something like that, there is an asset behind it that could be sold. That is the fundamental mark of success of these sorts of arrangements.

Andrew Lewer: It was not intended in an aggressive way.

Conrad Hall: No, I did not take it as such.

Q123 **Andrew Lewer:** Having led a council and done things a certain way, I know other people have been in similar positions as council leaders, where their offices and teams are telling them that everything is fine and that it is all going well. Sometimes it is and sometimes it is not. I am just interested in the difference, which you have slightly unpacked.

Conrad Hall: I will bring Deborah in in a moment, but there was a really good example of that about two months ago or so. The scrutiny committee, which is part of Newham Council, exercised their power of call-in regarding one of the decisions we are making about the development programme precisely because of perfectly reasonable and well-founded concerns about the inflationary costs we are seeing on the



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scheme, how we are continuing to maintain viability and so on. That is why I emphasise that it is transparency that is the real key to making this succeed.

Deborah Heenan: To add to that, having been strategy director for two house-builders, the board is absolutely critical to overseeing what we do. The devil is in the detail. There is a big difference between simply running a capital programme to build some homes and running a business where you need the income from that development to cross-subsidise and your success or failure depends on how well you and your development managers design a very commercial scheme. It has to be commercial for a social purpose, but it must be a commercial scheme.

If the Committee does visit, please come and visit some of the things we have built because they will be there for the next 50 years. Talk to some of our board members, who have spent 35 or 40 years in the industry. They will tell you how they scrutinise us as a company for that commercial robustness.

Q124 **Andrew Lewer:** Michael, Southwark has done things a bit differently. You have not pursued this council-owned housing strategy. Perhaps you could tell us what you have done instead, why and how that is going.

Michael Scorer: In effect, we set up a department called Southwark Construction, which operates in the manner of a developer but is completely in-house. In 2021, a third of all new council homes were built by Southwark. We have continued on that path.

It has always been intended that Southwark would finance that through a combination of borrowing from the Government and internal cross-subsidy across the whole of the programme. That would be some building to sell and some homes to rent at higher or intermediate rents, either for key workers or generally at a higher level. The early part of that programme has really focused on delivering council homes. We have delivered council homes like nobody else.

Deb has made the point that certainly local authorities and the social housing sector in general stands, if it is on its toes, to benefit in the downturn in the construction cycle. Certainly, when we are building council homes, we are not thinking about future sale. We are thinking about the very long term. We are going to own those buildings. These will be our tenants. We have to maintain these buildings and look after them for a long period.

Q125 **Andrew Lewer:** They are available for right to buy, though.

Michael Scorer: They are available for right to buy. That is the law of the land, and we accept that. That is what it is.

Again, the point has been made about prices. The Old Kent Road still is the cheapest street on the Monopoly board, but the Monopoly board needs updating. You can look at the prices in Peckham and on the Old



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Kent Road. Southwark is no longer a cheaper borough. The house prices plus the protection of the cost base mean we do not think there will be much right to buy. Indeed, there is not much right to buy happening at the moment, in any case, in the borough.

We think there is real merit in council housing. We might have time later to talk about what social housing really means and why it is different from any other sort of housing, but there is a real benefit in it. We are facing the same issues that are faced in Newham about where the additional money comes from to augment the grant and to augment any borrowing we can do. We think we can do those things without setting up a company.

Q126 **Andrew Lewer:** I do not know whether Kathryn or Pippa have any reflections on council-owned housing particularly.

Councillor Heylings: It is a really important question because it brings us back to the essence of this. We have a housing crisis. We have 1.2 million on the housing waiting list. The work by the LGA has shown that over 80% of local authorities now have housing delivery companies. That is up from 58% in 2017. Whether it is through wholly owned companies, joint ventures or internally through Housing Revenue Accounts, over 94% of local authorities are building houses. This is huge.

This is one of the ways in which we are seeing a stoppage in this. Over 94% of them are doing some building of houses.

Q127 **Bob Blackman:** All local authorities have a housing responsibility.

Councillor Heylings: Yes, and they are doing it.

Bob Blackman: But they cannot.

Councillor Heylings: If you look at the costs, if you look at what we have just talked about, how much you have available to do that, this is what we need to push for and invest in.

Q128 **Andrew Lewer:** You are including ALMOs.

Councillor Heylings: Yes.

Q129 **Andrew Lewer:** Kathryn, do you have anything to add?

Kathryn Jones: Dudley does not do anything like that at the moment, but it is something we are considering. We are looking at the art of the possible. We know that social housing is our core business. We have to maintain our current housing stock and we have to develop new housing, but we are always really mindful that, because of the level of demand and housing need across the country, we are allocating based on housing need. We never get to a position where we can necessarily even start to think of housing aspiration in the way we would want to.



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We are looking at what the art of the possible is in terms of a council-owned housing company. That may not necessarily be around building to cross-subsidise. I referenced before the creative use of right to buy receipts perhaps to purchase homes and that kind of thing to replenish our stock more quickly. Are there opportunities within that to start to look at meeting housing aspirations?

If you look at our current allocations policy, if you are a family with one child, you are entitled to a certain-sized property. If you are a family with one child, there is a chance you are going to have another two or three. At some point, a few years down the line, we are going to be looking to move you because you are overcrowded. We are looking quite creatively at, if we were to do that, whether there is also an opportunity to meet aspirations. In terms of families who can afford to under-occupy for a period of time because they are a growing family, are there opportunities there?

Of course, we need to be clear on the outcomes we would want to achieve, if we were to set up a council-owned housing company. Going back to what Conrad said earlier, we need to get the governance absolutely right to be able to do so.

We are in a slightly different position. It is something we are looking at. It is exciting, but it has to be for the right reasons and with the right governance and controls around it.

Q130 Mary Robinson: It is fascinating. Of course, there are several different models, which tentatively appear to be working in different ways but all of which have their own elements of risk. I wonder whether any benchmarking has taken place or whether there are any comparators. Is good practice in any way brought together across these different models?

Deborah Heenan: It is, but frankly it is sporadic. I talk regularly to other housing cos. I also talk to private sector developers that do not operate in Newham because there is no conflict of interest so we have a good view of the market. There is not a systemic sharing of all the stuff that is in the engine room below the superficial discussions about high-level models.

There is a real opportunity for central Government to spend a small amount of money pulling all of that together and making it available to all those housing cos. Essentially, they are start-ups. My point was that we were shaky because we had to invent things from scratch because we were one of the first. We have now got to a very stable position, but why should the sector keep reinventing that? That is a role, I would suggest, for the centre.

Q131 Andrew Lewer: I have one final rounding-up question. It is a big subject. Can we have snappy answers, if you can manage it? Why is collaboration between local authorities and housing associations still so limited?



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Councillor Heylings: I am not really sure of the answer to that one, if I am going to be very honest. There are partnerships that are going on. There are some novel partnerships that are going on in terms of enabling people to build up towards mortgages and rents. I will pass on this because the LGA has not done much work on that one.

Deborah Heenan: We do. It is limited. It is part of the culture of the sector. Again to the previous point, there is a huge opportunity for central Government to use positive nudging, not to have one-size-fits-all but to have co-ordinated variety of the approach to additions to the stock.

Conrad Hall: To emphasise that point about differentiation, as you have heard today, two large housing authorities in London have adopted quite different approaches for different local reasons. Once you spread that out across the country, you have incredibly different housing pressures, housing need and political direction locally as well.

It is really important to enable local authorities to adopt the solutions that work for them, provided that they stick to those really important principles of governance to make sure that, whatever model they put in works effectively in practice.

Kathryn Jones: Again, like the other members who have spoken, it is difficult to put your finger on quite why it is so limited. When it works and where it works, it works really well. I am sure there is some learning to be done from that.

One of my reflections is that increasingly we see our housing association partners having a much wider geographical span than they would have had 15 or 20 years ago. They are having to work with a number of different local authorities, all of whom work in different ways. There is something there around resource demands on the housing association as well. Inevitably there will be some intricacies in allocations policies that differ from council to council and there will be lots of other ways that we work in different ways.

There is something around recognising that there is a consistency issue for housing associations as well. It is something we should explore more and learn from good practice. Where I have seen it work, it generally works very well on most occasions.

Michael Scorer: I meet with the chiefs or senior managers from the top 10 housing associations in Southwark every quarter. We have all sorts of different relationships with different housing associations. I mentioned the Aylesbury Estate. There is £3.4 billion worth of regeneration to be done there. We are in a contract with Notting Hill. That one is probably bigger than most of the relationships other local authorities have with all their different housing associations.

At the other end of the scale, we do a lot of work on working with them and helping them to navigate through our own structure in the council.



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Post Covid, it has been really helpful. Some of those ties were lost a little bit. People did retreat and we stopped meeting. In Southwark we were concentrating on our vulnerable families and households, and we let those go a little bit.

There are some really great examples of where we work well with them. We share information; we learn from each other; a lot of good practice is shared. We have some really good niche relationships with housing associations that do specialist housing and supported housing, for example. That works particularly well because often their history comes from a relationship with a particular group that they support, which we probably do not have. We probably do not possess those skills and that knowledge. That still goes on.

Certainly, we could do more. We keep thinking about it. The most important thing, certainly in Southwark, is that we continue to have those discussions and meet with them regularly.

Q132 Chair: When you are looking for future building, councils and housing associations should not be competing for the same sites. That goes on sometimes, does it not? You are almost bidding against each other in a way that a bit of planning or co-operation would stop.

Michael Scorer: Certainly in Southwark I know that some developers have attempted to draw us into that bidding, and we have very strongly refused to do that. Looking at Southwark, we have been building a lot on our own sites and some land we have on estates. There is a little bit of that, but we have certainly tended not to get into any form of trying to outbid each other for things.

Q133 Chair: Do councils have a role in trying to get housing associations together so they do not bid against each other in this situation as well?

Councillor Heylings: It is about convening. It is about making sure you are looking at the spatial strategy and tying it up with the local development plans. It is about making sure you have those conversations early with the housing associations to know what the intention and the purpose is for those areas so they can deliver that social housing.

Conrad Hall: London boroughs also co-operate and try to avoid that sort of situation arising. Given the degree of pressure we are facing at the moment to try to find temporary accommodation for those in housing need, that is ever more challenging. Local authorities are also trying to collaborate on that, certainly in London, which I can speak about.

Chair: Thank you all very much for coming this afternoon to share the particular issues in your local areas and the wider issues that are affecting local authorities as a whole. That has been really helpful to the Committee today. That brings us to the end of our public proceedings for today.